

**MONTGOMERY COUNTY MEMORIAL HOSPITAL**  
**INDEPENDENT AUDITOR'S REPORT**  
**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**  
**YEARS ENDED JUNE 30, 2014 AND 2013**

# MONTGOMERY COUNTY MEMORIAL HOSPITAL

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MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Officials  
June 30, 2014

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Jim Robinson, Chair	Villisca, Iowa	2016
Kenneth Rech, Vice-Chair	Red Oak, Iowa	2014
Lorin Petersen, Treasurer	Stanton, Iowa	2014
Roger Ehmke, Secretary	Red Oak, Iowa	2016
Kathy Carlson	Red Oak, Iowa	2018
Sarah Smith	Red Oak, Iowa	2014
Kevin Cabbage	Stanton, Iowa	2018

Chief Executive Officer:

Allen E. Pohren (Retired September, 2014)	Red Oak, Iowa
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Chief Financial Officer:

Rick Leinen	Red Oak, Iowa
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# Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

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DAVID L. HANNASCH  
KENNETH P. TEGELS  
CHRISTOPHER J. NELSON  
DAVID A. GINTHER

## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Montgomery County Memorial Hospital  
Red Oak, Iowa

### **Report on the Financial Statements**

We have audited the accompanying statements of net position of Montgomery County Memorial Hospital as of June 30, 2014 and 2013 and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Trustees  
Montgomery County Memorial Hospital

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion the financial statements referred to above present fairly in all material respects, the financial position of Montgomery County Memorial Hospital as of June 30, 2014 and 2013 and the results of its operations, changes in financial position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Matters**

*Report on Required Supplementary Information*

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis and the Budgetary Comparison Information on pages 3 through 3e and on page 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Report on Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Montgomery County Memorial Hospital's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2012 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information on pages 1 and 23 through 40 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Board of Trustees  
Montgomery County Memorial Hospital

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2014 on our consideration of Montgomery County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Gunnwald, Ben, Kyhan & Co., P.C.

Atlantic, Iowa  
December 15, 2014



# Montgomery County Memorial Hospital

2301 Eastern Avenue • P.O. Box 498 • Red Oak, Iowa 51566 • Phone 712-623-7000

## MONTGOMERY COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis

Our discussion and analysis of Montgomery County Memorial Hospital's financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2014, 2013, and 2012. Please read it in conjunction with the Hospital's financial statements, which begin on page 4.

### FINANCIAL HIGHLIGHTS

The Hospital's net position increased in 2014 by \$294,691, or 1.2 percent. The Hospital's net position increased in 2013 by \$583,090 or 2.4 percent.

The Hospital reported an operating loss of \$1,341,801 in 2014 and an operating loss of \$853,926 in 2013. In 2012, the Hospital reported an operating loss of \$603,080.

Non-operating revenues were \$1,514,172 in 2014, \$1,406,016 in 2013, and \$1,337,085 in 2012. The largest component of non operating revenues is county taxes, which have been approximately \$1.53 million each year (\$1.58 million in 2014).

### USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

### THE STATEMENT OF NET POSITION AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Our analysis of the Hospital finances begins on page 3a. One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. The Hospital's net position, the difference between assets and liabilities, is one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. Other non-financial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors must be considered to assess the overall health of the Hospital.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Management's Discussion and Analysis - Continued

THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It explains what activities generated cash, how cash was used, and the change in the cash balance during the reporting period.

THE HOSPITAL'S NET POSITION

The Hospital's net position is the difference between its assets and liabilities reported in the Statement of Net Position on page 4. The Hospitals' net position increased \$294,691 or 1.2 percent in 2014 and increased \$583,090 or 2.4 percent in 2013, as you can see in Table 2.

Table 1: Assets, Liabilities, and Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets:			
Current assets	\$ 9,091,301	\$ 8,809,727	\$ 8,491,206
Capital assets, net	18,962,253	19,985,689	21,455,529
Other noncurrent assets	<u>9,421,667</u>	<u>7,789,028</u>	<u>6,922,362</u>
Total assets	<u>\$ 37,475,221</u>	<u>\$ 36,584,444</u>	<u>\$ 36,869,097</u>
Liabilities:			
Long-term debt outstanding	\$ 6,686,386	\$ 7,170,476	\$ 7,632,880
Other current and noncurrent liabilities	<u>3,153,231</u>	<u>2,916,055</u>	<u>3,377,394</u>
Total liabilities	<u>\$ 9,839,617</u>	<u>\$ 10,086,531</u>	<u>\$ 11,010,274</u>
Deferred Inflows of Resources	<u>\$ 2,368,000</u>	<u>\$ 1,525,000</u>	<u>\$ 1,469,000</u>
Net Position:			
Invested in capital assets, net of related debt	\$ 11,791,703	\$ 12,352,809	\$ 12,687,661
Restricted expendable assets	67,812	71,461	71,343
Unrestricted	<u>13,408,089</u>	<u>12,548,643</u>	<u>11,630,819</u>
Total net position	<u>\$ 25,267,604</u>	<u>\$ 24,972,913</u>	<u>\$ 24,389,823</u>



MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Management's Discussion and Analysis - Continued

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION

Table 2 shows the components of the operating and non operating activities and the resulting effect on changes in net position.

Table 2: Operating Results and Changes in Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating Revenues:			
Net patient service revenues	\$ 27,849,127	\$ 27,129,758	\$ 26,501,171
Other operating revenues	<u>408,587</u>	<u>392,062</u>	<u>389,145</u>
Total operating revenues	28,257,714	27,521,820	26,890,316
Operating Expenses:			
Salaries and wages	13,312,117	13,021,138	12,687,076
Employee benefit	4,562,361	4,335,001	4,017,723
Professional fees	1,876,386	1,775,257	1,824,513
Other operating expenses	7,780,772	7,095,704	6,744,878
Depreciation and amortization	<u>2,067,879</u>	<u>2,148,646</u>	<u>2,219,206</u>
Total operating expenses	29,599,515	28,375,746	27,493,396
Operating loss	( 1,341,801)	( 853,926)	( 603,080)
Non operating Revenues and Expenses:			
County taxes	1,583,328	1,532,004	1,458,468
Investment income	16,938	24,676	23,365
Noncapital grants and contributions	15,315	16,589	25,403
Other non operating revenues			
(expenses), net	<u>( 101,409)</u>	<u>( 167,253)</u>	<u>( 170,151)</u>
Total non operating revenues, net	1,514,172	1,406,016	1,337,085
Excess of Revenues Over Expenses			
(Expenses Over Revenues) Before			
Capital Grants and Contributions	172,371	552,090	743,005
Capital Grants and Contributions	<u>122,320</u>	<u>31,000</u>	<u>93,116</u>
Increase in Net Position	294,691	583,090	827,121
Net Position Beginning of Year	<u>24,972,913</u>	<u>24,389,823</u>	<u>23,562,702</u>
Net Position End of Year	<u>\$ 25,267,604</u>	<u>\$ 24,972,913</u>	<u>\$ 24,389,823</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Management's Discussion and Analysis – Continued

**OPERATING INCOME AND LOSS**

The first component of the overall change in the Hospital's net position is its operating income (loss) - generally, the difference between net patient service revenues and the expenses incurred to perform those services. In 2014, the Hospital had an operating loss of (\$1,341,801); in 2013, it was (\$853,926); and in 2012, the Hospital had an operating loss of (\$603,080). The operating loss in 2014 represents an increase of \$487,875 from the loss in 2013, and the operating loss in 2013 represents an increase of \$250,846 from the loss in 2012.

**The primary components of these operating income and operating losses are:**

Net patient service revenue increased \$719,369 or 2.7 percent from 2013 to 2014. Components of this include \$1,536,052 in increased patient charges (3.6%), \$628,024 in increased contractual adjustments (4.2%), and increased \$168,036 provision for bad debts and charity care. Accounts written off were higher from 2014 to 2013. The aging of accounts receivable shows a trend of newer accounts on the Hospital's books. It should also be noted that part of the increase in patient charges and related contractual adjustments are due to the hospital assuming management of Red Oak Internal Medicine for the years in 2011, 2012, and 2013. In addition, Surgical Services were provided. Contractual adjustments include Medicare and Medicaid EHR incentive payments.

In 2014, contractual adjustments are 34.4 percent of patient service revenue, compared to 34.2 percent of patient service revenue in 2013, 34.5 percent in 2012, 34.2 percent in 2011, and 31.8 percent in 2010. Contractual adjustments have improved since 2004, 38.0 percent, because of the Hospital's designation as a Critical Access Hospital (CAH) effective October 1, 2004 by the Centers for Medicare and Medicaid Services. As a CAH, the Hospital is reimbursed defined costs for services provided to Medicare and Medicaid patients. Medicare patients represent about 57 percent of the Hospital's patient service revenue in 2013 (58 percent in 2012). Medicaid represents about 8.4 percent of the Hospital's patient service revenues in 2013 (8.0 percent in 2012).

Numerous factors affect the contractual adjustments, including changes in volume and patient mix, and the cost of labor, benefits, purchased services and supplies needed to provide patient services. The Hospital is reimbursed by Medicare and Medicaid at tentative rates until final settlement with the fiscal intermediaries. At the date of this report, two years of Medicare and three years of Medicaid cost reports have yet to be finalized.

In addition, the Hospital has payment contracts with commercial insurance carriers and preferred provider organizations that include discounts from established charges and prospectively determined rates as a basis of reimbursement. Many of the non-Medicare contractals are increasing significantly. In particular, the Hospital's Wellmark business is at a discount of 20.8% for 2013 as compared to 19.0% for 2012. With new payment systems in place we expect Wellmark's contractual allowances to decrease in 2014.

Salaries and wages costs increased \$290,979 or 2.2 percent from 2013 to 2014. Employee benefits increased \$227,360 or 5.2 percent in 2014. The Hospital purchased an indemnity employee health insurance plan in calendar 2008 after 12 years of administering a self-insured plan.

## MONTGOMERY COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis - Continued

Total operating expenses increased \$1,223,769 or 4.3 percent from 2013 to 2014. Included in this is a decrease in depreciation and amortization expense of \$80,767 or 3.8 percent. Depreciation includes the completion of the hospital's addition in August, 2010. Investments in new technology and replacement of aging capital assets in the past three years are resulting in decreased depreciation and equipment maintenance costs.

The Hospital sometimes provides care for patients who have little or no health insurance or other means of repayment. This service to the community is consistent with the goals established for the Hospital when it was established. Because there is no expectation of repayment, charity care is not reported as net patient service revenues of the Hospital.

### NONOPERATING REVENUES AND EXPENSES

Non operating revenues consist primarily of property taxes levied by the Hospital and investment earnings. The property valuation is calculated as of July 1 each year and used as the basis for tax levies on January 1.

### GRANTS, CONTRIBUTIONS, AND ENDOWMENTS

The Hospital receives contributions from the Montgomery County Memorial Hospital Foundation, the Montgomery County Memorial Hospital Auxiliary, and from individual donors. The Hospital receives both capital and operating grants from various state and federal agencies for specific programs. These are discussed in Note A.13 to the financial statements.

### THE HOSPITAL'S CASH FLOWS

Changes in the Hospital's cash flows are consistent with changes in operating losses and non operating revenues and expenses, discussed earlier.

### BUDGETARY HIGHLIGHTS

The official county budget of the Hospital for the year ended June 30, 2014 was prepared on a modified accrual basis. Hospital revenues and expenditures were less than budgeted amounts during 2014 by \$2,987,610 and \$2,482,633, respectively. The budgeted amounts were higher due to higher anticipated bad debts, salaries and benefits expenditures and lower actual patient volume.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets:

At the end of 2014, the Hospital had \$18,371,232 invested in capital assets, net of accumulated depreciation (\$19,694,373 in 2013), as detailed in Note F to the financial statements. In 2014, the Hospital purchased new property and equipment costing \$789,773 (\$868,449 in 2013; \$1,502,066 in 2013). In 2012 the Hospital removed historical assets no longer in use or present amounting to \$3,679,943.

During the year ended June 30, 2011, the Hospital capitalized its long-term site development, renovation and expansion of the existing facility with a total cost of \$15,142,628.

**MONTGOMERY COUNTY MEMORIAL HOSPITAL**  
**Management's Discussion and Analysis – Continued**

**Debt:**

At year-end, the Hospital had \$7,170,550 in long-term debt outstanding as detailed in Note G (\$7,632,880 at June 30, 2013).

**CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Chief Financial Officer or Controller's Office at Montgomery County Memorial Hospital, Red Oak, Iowa.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Statements of Net Position  
June 30,

ASSETS

	<u>2014</u>	<u>2013</u>
Current Assets:		
Cash	\$ 1,121,704	\$ 677,678
Patient receivables, less allowances for doubtful accounts and contractual adjustments (\$1,417,000 in 2014, \$2,202,000 in 2013)	4,495,134	4,817,817
Other receivables	61,977	67,198
Inventory	530,715	380,900
Prepaid expense	343,783	299,933
Estimated third party payor settlements	855,000	953,000
Succeeding year property tax receivable	1,599,000	1,525,000
Internally designated assets	<u>83,988</u>	<u>88,201</u>
Total current assets	9,091,301	8,809,727
Designated and Restricted Assets:		
Internally designated assets	8,780,505	7,265,661
Restricted assets	<u>67,812</u>	<u>71,461</u>
	8,848,317	7,337,122
Less amounts required to meet current liabilities	<u>83,988</u>	<u>88,201</u>
	8,764,329	7,248,921
Capital Assets:		
Depreciable capital assets, net	18,371,232	19,694,373
Non-depreciable capital assets	<u>591,021</u>	<u>291,316</u>
	18,962,253	19,985,689
Other Assets:		
Notes receivable	38,750	32,750
Other	<u>618,588</u>	<u>507,357</u>
	657,338	540,107
 Total assets	 <u>\$ 37,475,221</u>	 <u>\$ 36,584,444</u>

The accompanying notes are an integral part of these statements.

# LIABILITIES AND NET POSITION

	<u>2014</u>	<u>2013</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 484,164	\$ 462,404
Accounts payable	956,318	756,426
Accrued salaries and wages	531,407	514,049
Accrued other employee compensation	829,990	829,779
Accrued interest payable	26,349	28,048
Accrued fees	14,005	21,219
Payroll taxes withheld and accrued	271,742	255,695
Other current liabilities	<u>39,256</u>	<u>48,435</u>
Total current liabilities	3,153,231	2,916,055
Long-Term Debt:		
Notes payable, less unamortized refunding costs and current maturities	<u>6,686,386</u>	<u>7,170,476</u>
Total liabilities	9,839,617	10,086,531
Deferred Inflows of Resources:		
Deferred revenue	2,368,000	1,525,000
Net Position:		
Invested in capital assets, net of related debt	11,791,703	12,352,809
Restricted - expendable	67,812	71,461
Unrestricted	<u>13,408,089</u>	<u>12,548,643</u>
Total net position	<u>25,267,604</u>	<u>24,972,913</u>
 Total liabilities and net position	 <u>\$ 37,475,221</u>	 <u>\$ 36,584,444</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Statements of Revenues, Expenses and Changes in Net Position  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Revenue:		
Net patient service revenue	\$ 27,849,127	\$ 27,129,758
Other revenue	<u>408,587</u>	<u>392,062</u>
Total revenue	28,257,714	27,521,820
Expenses:		
Nursing service	7,389,227	7,208,712
Other professional service	12,641,938	12,035,677
General service	2,971,156	2,708,291
Fiscal and administrative service	4,529,315	4,274,420
Provision for depreciation	<u>2,067,879</u>	<u>2,148,646</u>
Total expenses	<u>29,599,515</u>	<u>28,375,746</u>
Operating Loss	( 1,341,801)	( 853,926)
Non-Operating Revenue (Expenses):		
County taxes	1,583,328	1,532,004
Investment income	16,938	24,676
Noncapital grants and contributions	15,315	16,589
Rental income, net	242,044	203,997
Interest expense	<u>( 343,453)</u>	<u>( 371,250)</u>
Non-operating revenue, net	<u>1,514,172</u>	<u>1,406,016</u>
Excess of Revenues Over Before Capital Grants and Contributions	172,371	552,090
Capital Grants and Contributions	<u>122,320</u>	<u>31,000</u>
Increase in Net Position	294,691	583,090
Net Position - Beginning of Year	<u>24,972,913</u>	<u>24,389,823</u>
Net Position - End of Year	<u>\$ 25,267,604</u>	<u>\$ 24,972,913</u>

The accompanying notes are an integral part of these statements.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Statements of Cash Flows  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 29,044,031	\$ 25,791,462
Cash paid to suppliers	( 14,196,856)	( 12,957,378)
Cash paid to employees	( 13,294,548)	( 12,951,795)
Other revenue received	<u>408,587</u>	<u>392,062</u>
Net cash provided by operating activities	1,961,214	274,351
Cash flows from non-capital financing activities:		
County tax received	1,583,328	1,532,004
Noncapital grants and contributions	<u>15,315</u>	<u>16,589</u>
Net cash provided by non-capital financing activities	1,598,643	1,548,593
Cash flows from capital and related financing activities:		
Construction in progress expenditures	( 299,705)	( 625,259)
Purchase of property and equipment	( 789,773)	( 824,317)
Principal paid on long-term debt	( 462,330)	( 441,622)
Interest paid	( 345,152)	( 365,860)
Capital grants and contributions	<u>122,320</u>	<u>31,000</u>
Net cash used in capital and related financing activities	( 1,774,640)	( 2,226,058)
Cash flows from investing activities:		
Investment income received	16,938	24,676
Increase in designated and restricted assets	( 6,130)	( 7,213)
Increase in notes receivable, net	( 15,000)	( 15,000)
Office building rental income	291,693	280,601
Increase in other assets	<u>( 123,627)</u>	<u>( 25,935)</u>
Net cash provided by investing activities	163,874	257,129
Net increase (decrease) in cash and cash equivalents	1,949,091	( 145,985)
Cash and cash equivalents at beginning of year	<u>6,141,313</u>	<u>6,287,298</u>
Cash and cash equivalents at end of year	<u>\$ 8,090,404</u>	<u>\$ 6,141,313</u>

(continued next page)



MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Statements of Cash Flows - Continued  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash in current assets	\$ 1,121,704	\$ 677,678
Cash and cash equivalents in internally designated assets	<u>6,968,700</u>	<u>5,463,635</u>
	<u>\$ 8,090,404</u>	<u>\$ 6,141,313</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$( 1,341,801)	\$( 853,926)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Provision for depreciation	2,067,879	2,148,646
Amortization	21,396	19,645
Changes in assets and liabilities		
Accounts receivable	327,904	( 178,296)
Inventory	( 149,815)	15,587
Prepaid expense	( 43,850)	( 130,960)
Estimated third-party payor settlements	98,000	( 1,160,000)
Accounts payable, trade	195,278	282,904
Accrued salaries and wages	17,358	60,075
Accrued other employee compensation	211	9,268
Accrued fees	( 7,214)	2,000
Payroll taxes withheld and accrued	16,047	29,138
Other current liabilities	( 9,179)	30,270
Deferred EMR incentive payment	769,000	--
Total adjustments	<u>3,303,015</u>	<u>1,128,277</u>
Net cash provided by operating activities	<u>\$ 1,961,214</u>	<u>\$ 274,351</u>

The accompanying notes are an integral part of these statements.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES

1. Reporting Entity

Montgomery County Memorial Hospital (the Hospital) is a critical access county hospital that provides acute care with related ancillary, outpatient, home health, hospice and physician clinic services. The Hospital is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital.

The Hospital has one component unit. The Montgomery County Memorial Hospital Foundation is a component unit because the Hospital is the sole beneficiary of the Foundation and its financial statements should be discretely presented. However, the Foundation has limited assets and activity other than collecting contributions to be disbursed to the Hospital. Therefore, discretely presenting the component unit would not have a material effect on these financial statements.

The following is a summary of the Foundation's financial information as of and for the year ended June 30:

	<u>2014</u>	<u>2013</u>
Assets	\$ <u>152,114</u>	\$ <u>216,369</u>
Net Position	\$ <u>152,114</u>	\$ <u>216,369</u>
Net Revenues	\$( <u>64,255</u> )	\$ <u>27,763</u>

2. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, including designated and restricted assets.

5. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

6. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

7. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of two years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to fifty years for buildings and land improvements and three to twenty years for equipment).

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Hospital capitalized interest cost of \$ - 0 - in 2014 (\$ - 0 - in 2013).

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

9. Compensated Absences

Hospital employees earn paid time off at varying rates depending on years of service. Paid time off consists of holiday, vacation and sick time and accumulates to a maximum of 528 hours. Paid time off hours cannot be earned or saved beyond twice the annual amount earned. The computed amount of paid time off benefits earned by year end is recorded as part of accrued other employee compensation.

10. Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

11. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

12. Property Tax Levy

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

13. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

14. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. *Permanent* endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, law permits the Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds. Currently, the Hospital has no endowment funds.

15. Restricted Resources

Use of restricted or unrestricted resources for individual projects is determined by the Hospital Board of Trustees based on the facts regarding each specific situation.

16. Net Position

Net position of the Hospital is classified in three components. *Invested in capital assets net of related debt* consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* consists of noncapital assets that must be used for a particular purpose or permanent endowments, as specified by creditors, grantors, or contributors external to the Hospital. *Unrestricted net position* consists of the remaining net position that does not meet the definition of *invested in capital assets net of related debt or restricted*.

17. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service depending on the timing of the charity determination.

18. Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68 "*Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27.*" This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the Hospital's proportionate share of the Iowa Public Employees Retirement System pension plan.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid - Inpatient services and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2012. The Hospital's Medicaid cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2011. However, finalized cost reports are subject to re-opening by the intermediaries within three years of the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

NOTE C - ENDOWMENTS AND RESTRICTED ASSETS

Restricted expendable assets are available for the following purposes:

	<u>2014</u>	<u>2013</u>
Long-term debt	<u>\$ 67,812</u>	<u>\$ 71,461</u>

The Hospital has no restricted nonexpendable assets or endowments at June 30, 2014 or 2013.

Following is a summary of the use of temporarily restricted assets during the year ended June 30:

	<u>2014</u>	<u>2013</u>
Payment of long-term debt	\$ 3,649	\$ --
Purchase of property and equipment	<u>122,320</u>	<u>31,000</u>
	<u>\$ 125,969</u>	<u>\$ 31,000</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE D - DESIGNATED ASSETS

Designated assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes. Of the \$13,408,089 (\$12,548,643 as of June 30, 2013) of unrestricted net position as of June 30, 2014, \$8,780,505 (\$7,265,661 for 2013) has been designated by the Hospital's Board of Trustees for purposes identified in the following schedule.

	<u>2014</u>	<u>2013</u>
Capital acquisitions and related property taxes	\$ 16,176	\$ 16,740
Operations	<u>8,764,329</u>	<u>7,248,921</u>
	<u>\$ 8,780,505</u>	<u>\$ 7,265,661</u>

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2014 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. The investments are all insured, registered, or held by the Hospital or its agent in the Hospital's name. Investments are stated as indicated in Note A.

The Hospital is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The composition of designated and restricted assets is as follows:

	<u>2014</u>	<u>2013</u>
Internally Designated Assets:		
Cash and cash equivalents	\$ 6,900,888	\$ 5,392,174
Certificates of deposit	1,878,292	1,870,112
Interest receivable	<u>1,325</u>	<u>3,375</u>
	<u>\$ 8,780,505</u>	<u>\$ 7,265,661</u>
Restricted Assets:		
Cash and cash equivalents	<u>\$ 67,812</u>	<u>\$ 71,461</u>

**Interest Rate Risk.** The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE F - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2014 and 2013 were as follows:

<u>Cost</u>	<u>Balance 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2014</u>
Land Improvements	\$ 2,024,771	\$ --	\$ --	\$ 2,024,771
Buildings	17,139,355	96,893	--	17,236,248
Building Service Equipment	11,199,812	15,420	--	11,215,232
Fixed Equipment	1,233,496	109,263	--	1,342,759
Major Movable Equipment	<u>12,891,862</u>	<u>568,197</u>	<u>--</u>	<u>13,460,059</u>
	44,489,296	789,773	--	45,279,069
<u>Depreciation</u>				
Land Improvements	1,292,908	111,344	--	1,404,252
Buildings	6,833,944	702,674	--	7,536,618
Building Service Equipment	5,787,604	421,464	--	6,209,068
Fixed Equipment	673,943	10,384	--	684,327
Major Movable Equipment	<u>10,206,524</u>	<u>867,048</u>	<u>--</u>	<u>11,073,572</u>
Total Depreciation	<u>24,794,923</u>	<u>2,112,914</u>	<u>--</u>	<u>26,907,837</u>
Depreciable Capital Assets, Net	<u>\$ 19,694,373</u>	<u>\$( 1,323,141)</u>	<u>\$ --</u>	<u>\$ 18,371,232</u>
Construction in Progress	\$ 187,976	\$ 299,705	\$ --	\$ 487,681
Land	<u>103,340</u>	<u>--</u>	<u>--</u>	<u>103,340</u>
Non-Depreciable Capital Assets	<u>\$ 291,316</u>	<u>\$ 299,705</u>	<u>\$ --</u>	<u>\$ 591,021</u>



MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE F - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2013</u>
Land Improvements	\$ 2,024,771	\$ --	\$ --	\$ 2,024,771
Buildings	17,139,355	--	--	17,139,355
Building Service Equipment	11,079,853	119,959	--	11,199,812
Fixed Equipment	1,233,496	--	--	1,233,496
Major Movable Equipment	12,143,372	748,490	--	12,891,862
	<u>43,620,847</u>	<u>868,449</u>	<u>--</u>	<u>44,489,296</u>
<u>Depreciation</u>				
Land Improvements	1,181,526	111,382	--	1,292,908
Buildings	6,122,571	711,373	--	6,833,944
Building Service Equipment	5,383,274	404,330	--	5,787,604
Fixed Equipment	628,423	45,520	--	673,943
Major Movable Equipment	9,253,079	953,445	--	10,206,524
Total Depreciation	<u>22,568,873</u>	<u>2,226,050</u>	<u>--</u>	<u>24,794,923</u>
Depreciable Capital Assets, Net	<u>\$ 21,051,974</u>	<u>\$( 1,357,601)</u>	<u>\$ --</u>	<u>\$ 19,694,373</u>
Construction in Progress	\$ 300,215	\$ 376,228	\$ 488,467	\$ 187,976
Land	<u>103,340</u>	<u>--</u>	<u>--</u>	<u>103,340</u>
Non-Depreciable Capital Assets	<u>\$ 403,555</u>	<u>\$ 376,228</u>	<u>\$ 488,467</u>	<u>\$ 291,316</u>

The property and equipment includes a medical office building attached to the Hospital and related equipment totaling \$3,456,322, of which a portion is rented to local healthcare related organizations. The depreciation expense on all property and equipment totaled \$2,112,914 for the year ended June 30, 2014 (\$2,226,050 in 2013), of which \$45,035 (\$77,404 in 2013) is related to the rental space and is included in the net rental income under non-operating revenue.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE G - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2014 and 2013 follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2014</u>	<u>Current Portion</u>
Long-Term Debt:					
Series 2009 note	\$ 7,632,880	\$ --	\$ 462,330	\$ 7,170,550	\$ 484,164
Total Long-Term Debt	<u>\$ 7,632,880</u>	<u>\$ --</u>	<u>\$ 462,330</u>	<u>\$ 7,170,550</u>	<u>\$ 484,164</u>
	<u>Balance 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2013</u>	<u>Current Portion</u>
Long-Term Debt:					
Series 2009 note	\$ 8,074,502	\$ --	\$ 441,622	\$ 7,632,880	\$ 462,404
Less unamortized refunding costs	<u>( 7,013)</u>	<u>--</u>	<u>( 7,013)</u>	<u>--</u>	<u>--</u>
Total Long-Term Debt	<u>\$ 8,067,489</u>	<u>\$ --</u>	<u>\$ 434,609</u>	<u>\$ 7,632,880</u>	<u>\$ 462,404</u>

The Series 2009 Revenue and Refunding Capital Loan Note was issued in September, 2009 in a principal amount up to \$8,700,000. The note was issued to refund the Series 2003 notes and pay for a renovation and expansion project. The note carries an interest rate of 4.625% per annum through December 1, 2015. On December 1, 2015 and again on December 1, 2020, the rate will be adjusted to 1.375% over the five year Federal Home Loan Bank of Des Moines fixed advance rate in effect on those dates. Such rate increases, however, will be limited to a 1.75% increase over the preceding effective interest rate. Commencing December 1, 2010, the note matures in 60 equal quarterly installments (as adjusted for changes in the interest rate) of principal and interest.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE G - NON-CURRENT LIABILITIES - Continued

The note is collateralized by future revenues of the Hospital. Under the terms of the note indenture, the Hospital is required to satisfy certain measures of financial performance as long as the note is outstanding. The note indenture also places limits on the incurrence of additional borrowings. The Hospital is also required to maintain certain deposits with a bank. Such deposits are included with restricted assets in the financial statements.

The annual debt service on the notes and capital lease obligation is expected to require less than 30% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$807,500 and \$2,751,100, respectively.

Scheduled principal and interest repayments on the long-term debt are as follows:

Year Ending June 30,	Long-Term Debt		
	Principal	Interest	Total
2015	\$ 484,164	\$ 323,318	\$ 807,482
2016	506,948	300,534	807,482
2017	530,804	276,678	807,482
2018	555,783	251,699	807,482
2019	581,937	225,545	807,482
2020-2024	3,347,161	690,247	4,037,408
2025-2026	1,163,753	47,543	1,211,296
	<u>\$ 7,170,550</u>	<u>\$ 2,115,564</u>	<u>\$ 9,286,114</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE H - DEFERRED INFLOWS OF RESOURCES

The deferred inflows of resources include electronic health records (EHR) incentive payments, and deferred succeeding year property tax. The EHR revenue will be recognized over four years, as the related equipment is depreciated. The deferred succeeding year property tax represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. Amounts deferred and sources are listed below:

	<u>2014</u>	<u>2013</u>
Electronic health records incentive	\$ 769,000	\$ --
Deferred succeeding year property tax	<u>1,599,000</u>	<u>1,525,000</u>
	<u>\$ 2,368,000</u>	<u>\$ 1,525,000</u>

NOTE I - PENSION AND RETIREMENT BENEFITS

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.95% of their annual salary and the Hospital is required to contribute 8.93% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2014, 2013, and 2012, were approximately \$1,170,000, \$1,111,000, and \$1,006,000, respectively, equal to the required contributions for each year.

NOTE J - DEFERRED COMPENSATION PLAN

The Hospital sponsors a deferred compensation plan which is administered by an independent contractor under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The Hospital's human resource and payroll departments are responsible for the accounting, reconciliations and recordkeeping associated with employees' enrollment, payments to the plan through payroll deductions and timely transfer of withheld funds to the trustee designated by the participant for investment. The plan is designed so that each participant retains investment control of his/her individual account. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE J - DEFERRED COMPENSATION PLAN - Continued

The Hospital's fiduciary responsibility is limited to due care in selecting the plan administrator. The administrator is responsible for withholdings and W-2s when the participants receive payments. The administrator is also required to submit an annual report to the Hospital. The Hospital is liable to a participant only for income lost because of its failure to send payment of a deferred amount as directed by the participant.

The market value of the exclusive benefit plan assets at June 30, 2014, was approximately \$3,336,400, (\$2,715,400 at June 30, 2013). This amount is not included in the financial statements since the Hospital does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

NOTE K - RELATED ORGANIZATIONS

Health Partners of Southwest Iowa

The Hospital has joined with two other area hospitals (Cass County Memorial Hospital of Atlantic and Myrtue Medical Center of Harlan) to form a 28E organization, Health Partners of Southwest Iowa (HPSI). The organization was formed to share ideas, capital, and resources and to assist in the containment of healthcare costs, while improving the quality of healthcare being delivered in the member hospital service areas. Each of the three members purchase mobile scanning and other medical services from the organization.

Below is a summary of the Hospital's transactions with HPSI and year end balances involving the 28E organization:

	<u>2014</u>	<u>2013</u>
Services purchased from HPSI	\$ <u>92,033</u>	\$ <u>89,188</u>
Services and supplies provided to HPSI	\$ <u>38,580</u>	\$ <u>26,572</u>
Amount due to HPSI	\$ <u>1,747</u>	\$ <u>19,902</u>
Member share of net position	\$ <u>465,322</u>	\$ <u>452,158</u>

The member share of net position is included in other assets and the amount due to HPSI is included in accounts payable on the balance sheet. The Hospital has no ongoing financial interest in or responsibility to HPSI, other than that disclosed above. Financial statements of HPSI are on file at the Hospital and the office of the State Auditor.

Montgomery County Memorial Hospital Foundation

Montgomery County Memorial Hospital Foundation is a separate not for profit organization with an independent board of directors. The Hospital is the sole beneficiary of the Foundation, therefore the Foundation is considered to be a component unit of the Hospital (see Note A.1). During the year ended June 30, 2014, contributions received from this organization were \$96,320 (\$ - 0 - for 2013).

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE L - OTHER POST EMPLOYMENT BENEFITS (OPEB)

**Plan Description:** As required by state law, the Hospital offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The self-insured plan is a part of the plan offered to all Hospital employees, and the retirees must pay the full cost of the health insurance premium equal to that charged for current employees. There are approximately 205 active employees and 2 retirees currently covered by the plan.

**Funding Policy:** The Hospital does not set aside funds to pay for any OPEB liability. Any Hospital costs of an implicit health insurance premium rate subsidy are charged to expense in the year paid.

**Net OPEB Obligation:** Management had an actuarial valuation performed dated October 30, 2013. The actuarial report noted the unfunded actuarial accrued liability to be \$291,629. The annual required contribution for the year end June 30, 2014 is \$34,888. The actuarial accrued liability is assuming a 35% participation rate; however, the Hospital's current participation rate is less than one percent. Because of the high assumed participation rate, management considers the actuarial accrued liability to be overstated. Management considers the liability to be immaterial and has not recorded this liability in its statements of net position.

NOTE M - COMMITMENTS AND CONTINGENCIES

Notes Receivable

The notes receivable represent funds advanced under agreements with physicians who have begun to practice in the community. The agreements include commitments by the physicians to provide medical services in the community for a specified period of years. In exchange for the commitments of time and services, the Hospital will forgive the notes over the terms of the commitments.

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Montgomery County Memorial Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

Construction in Progress

As of June 30, 2014, the Hospital incurred costs of \$487,681 for the purchase of equipment and various computer hardware and software applications that have not been placed in service. The total estimated cost of this health information technology project is approximately \$947,000. The project is being financed through the use of internally generated funds.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE M - COMMITMENTS AND CONTINGENCIES - Continued

Subsequent Event

Subsequent to year end, the Hospital entered into a contract for renovation of the Intensive Care Unit. The cost of the project is estimated to cost approximately \$550,000. The project is being financed through the use of internally generated funds.

The Hospital has evaluated all subsequent events through December 15, 2014, the date the financial statements were available to be issued.

NOTE N - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2014 and 2013, was as follows:

	<u>2014</u>	<u>2013</u>
Receivable from:		
Patients	\$ 704,156	\$ 962,129
Medicare	2,628,307	3,609,388
Medicaid	562,042	398,087
Blue Cross	1,313,424	1,435,831
Other commercial insurance carriers	521,907	537,507
Others	<u>182,298</u>	<u>76,875</u>
	5,912,134	7,019,817
Less allowances for doubtful accounts and contractual adjustments	<u>1,417,000</u>	<u>2,202,000</u>
	<u>\$ 4,495,134</u>	<u>\$ 4,817,817</u>

\* \* \*

## REQUIRED SUPPLEMENTARY INFORMATION



MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Budgetary Comparison Schedule  
Year ended June 30, 2014

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following the required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the modified accrual basis used to prepare the budget. The adjustment results from accounting for depreciation, interest, plant and equipment purchases, debt payments, and net assets differently for financial statement and budget purposes.

	Per Financial Statements		
	Unrestricted Fund	Restricted Fund	Total
Amount raised by taxation	\$ 1,583,328	\$ --	\$ 1,583,328
Other revenues	28,188,558	122,320	28,310,878
Transfers in (out)	<u>125,969</u>	<u>( 125,969)</u>	<u>--</u>
	29,897,855	( 3,649)	29,894,206
Expenses	<u>29,599,515</u>	<u>--</u>	<u>29,599,515</u>
Net	298,340	( 3,649)	294,691
Balance beginning of year	<u>24,901,452</u>	<u>71,461</u>	<u>24,972,913</u>
Balance end of year	<u>\$ 25,199,792</u>	<u>\$ 67,812</u>	<u>\$ 25,267,604</u>

	Total Per Financial Statements	Budget Adjustments	Budget Basis	Adopted Budget
Amount raised by taxation	\$ 1,583,328	\$ --	\$ 1,583,328	\$ 1,525,201
Other revenues	<u>28,310,878</u>	<u>388,488</u>	<u>28,699,366</u>	<u>31,745,103</u>
	29,894,206	388,488	30,282,694	33,270,304
Expenses	<u>29,599,515</u>	<u>( 172,618)</u>	<u>29,426,897</u>	<u>31,909,530</u>
Net	294,691	561,106	855,797	1,360,774
Balance beginning of year	<u>24,972,913</u>	<u>( 14,436,366)</u>	<u>10,536,547</u>	<u>10,536,547</u>
Balance end of year	<u>\$ 25,267,604</u>	<u>\$ ( 13,875,260)</u>	<u>\$ 11,392,344</u>	<u>\$ 11,897,321</u>

See Independent Auditor's Report.

## SUPPLEMENTARY INFORMATION

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Patient Receivables  
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2014</u>		<u>2013</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 1,797,607	30.4%	\$ 2,406,650	34.3%
31 - 90	1,767,045	29.9	2,195,538	31.3
91 - 180	414,989	7.0	455,496	6.5
181 - 360	178,415	3.0	221,502	3.1
361 and over	97,277	1.7	124,527	1.8
	<u>4,255,333</u>	<u>72.0</u>	<u>5,403,713</u>	<u>77.0</u>
In hospital and unbilled	<u>1,656,801</u>	<u>28.0</u>	<u>1,616,104</u>	<u>23.0</u>
	<u>5,912,134</u>	<u>100.0%</u>	<u>7,019,817</u>	<u>100.0%</u>

Less:

Allowance for doubtful accounts	320,000	365,000
Allowance for contractual adjustments	<u>1,097,000</u>	<u>1,837,000</u>
	<u>\$ 4,495,134</u>	<u>\$ 4,817,817</u>

Allowance for Doubtful Accounts:

	<u>Year Ended June 30,</u>	
	<u>2014</u>	<u>2013</u>
Balance, beginning	\$ 365,000	\$ 321,000
Provision for bad debts	1,182,961	1,097,528
Recoveries of accounts previously written off	<u>264,335</u>	<u>254,430</u>
	<u>1,812,296</u>	<u>1,672,958</u>
Accounts written off	<u>1,492,296</u>	<u>1,307,958</u>
Balance, ending	<u>\$ 320,000</u>	<u>\$ 365,000</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Inventory/Prepaid Expense  
June 30,

	<u>2014</u>	<u>2013</u>
<u>Inventory</u>		
General stores	\$ 115,585	\$ 89,208
Pharmacy	204,198	186,541
Dietary	17,453	18,089
Operating room	<u>193,479</u>	<u>87,062</u>
	<u>\$ 530,715</u>	<u>\$ 380,900</u>
 <u>Prepaid Expense</u>		
Dues	\$ 15,491	\$ 15,519
Insurance	267,960	240,923
Service contracts	<u>60,332</u>	<u>43,491</u>
	<u>\$ 343,783</u>	<u>\$ 299,933</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Patient Service Revenue  
Year ended June 30,

	2014	
	<u>Inpatient</u>	<u>Outpatient</u>
Daily Patient Services:		
Medical, surgical and obstetric	\$ 998,823	\$ 153,799
Coronary care	1,414,279	202,549
Nursery	90,096	--
	<u>2,503,198</u>	<u>356,348</u>
Other Nursing Services:		
Operating room	306,483	2,987,912
Recovery room	7,915	157,080
Labor and delivery rooms	68,543	35,909
Medical supplies	411,979	1,221,304
Intravenous therapy	1,742,199	655,815
Emergency service	2,508	2,039,550
Wound/ostomy care	4,060	34,073
Outpatient clinics	979	439,565
	<u>2,544,666</u>	<u>7,571,208</u>
Other Professional Services:		
Emergency room physicians	1,037	1,439,893
Laboratory	611,840	2,853,353
Electrocardiology	90,460	413,357
Electroencephalography	11,400	26,625
Radiology	156,052	1,755,911
Ultrasound	83,735	977,199
CT scan	249,495	3,145,420
Mammography	--	518,786
MRI	100,105	1,166,625
Nuclear medicine	31,331	354,404
Pharmacy	1,389,815	1,696,522
Anesthesiology	113,304	718,609
Inhalation therapy	683,938	299,561
Physical therapy	95,213	1,047,080
Speech therapy	12,819	41,001
Occupational therapy	11,174	246,220
Cardiopulmonary rehabilitation	--	48,618
Oncology	5,614	1,092,699
Sleep study	--	256,470
Home health	--	460,060
Hospice	--	536,913
Business health	--	145,883
Women's Health Clinic	--	537,467
Villisca Medical Clinic	--	250,240
Surgical services	--	1,286,301
Internal Medicine Clinic	--	2,326,959
	<u>3,647,332</u>	<u>23,642,176</u>
	<u>\$ 8,695,196</u>	<u>\$ 31,569,732</u>

See Independent Auditor's Report.

2014		2013
Swing Bed	Total	Total
\$ 1,317,106	\$ 2,469,728	\$ 2,552,335
--	1,616,828	1,946,174
--	90,096	86,111
<u>1,317,106</u>	<u>4,176,652</u>	<u>4,584,620</u>
20,370	3,314,765	3,424,769
680	165,675	171,652
--	104,452	110,393
206,620	1,839,903	2,052,683
718,006	3,116,020	2,900,620
--	2,042,058	1,905,431
6,849	44,982	34,691
860	441,404	331,187
<u>953,385</u>	<u>11,069,259</u>	<u>10,931,426</u>
--	1,440,930	1,001,831
203,016	3,668,209	3,529,781
23,160	526,977	457,228
4,275	42,300	23,632
49,150	1,961,113	1,926,159
12,869	1,073,803	930,716
30,455	3,425,370	3,277,785
--	518,786	456,867
21,440	1,288,170	1,288,820
14,861	400,596	346,333
924,318	4,010,655	4,368,834
6,594	838,507	783,812
584,666	1,568,165	1,752,137
259,812	1,402,105	1,266,942
18,500	72,320	38,307
53,694	311,088	226,084
--	48,618	90,147
3,274	1,101,587	1,215,110
--	256,470	202,771
--	460,060	322,952
--	536,913	455,612
--	145,883	133,331
--	537,467	375,528
--	250,240	249,273
--	1,286,301	1,092,566
--	2,326,959	1,880,847
<u>2,210,084</u>	<u>29,499,592</u>	<u>27,693,405</u>
<u>\$ 4,480,575</u>	<u>\$ 44,745,503</u>	<u>\$ 43,209,451</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Revenue and Related Adjustments  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Net Patient Service Revenue:		
Patient service revenue	\$ 44,745,503	\$ 43,209,451
Contractual adjustments	( 15,412,672)	( 14,784,647)
Discounts and allowances	( 172,534)	( 151,912)
Charity care	( 128,209)	( 45,606)
Provision for bad debts	( 1,182,961)	( 1,097,528)
	<u>\$ 27,849,127</u>	<u>\$ 27,129,758</u>
Other Operating Revenue:		
Meals sold	\$ 100,916	\$ 96,146
Prisoner meals	43,456	43,712
Meals on wheels	33,080	26,880
Lifeline	69,546	68,547
Medical record transcripts	1,028	1,439
Case management	24,428	37,566
Wellness	29,799	31,694
Contracted services	36,354	30,775
Miscellaneous	69,980	55,303
	<u>\$ 408,587</u>	<u>\$ 392,062</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Nursing Service Expenses  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Administrative:		
Salaries and wages	\$ 168,882	\$ 166,783
Employee benefits	45,433	47,904
Supplies and other expense	<u>9,078</u>	<u>8,003</u>
	223,393	222,690
Quality Assurance:		
Salaries and wages	70,619	69,764
Employee benefits	30,004	22,415
Supplies and other expense	<u>7,700</u>	<u>9,788</u>
	108,323	101,967
Inservice:		
Salaries and wages	65,679	64,480
Employee benefits	33,288	31,958
Supplies and other expense	<u>38,144</u>	<u>66,065</u>
	137,111	162,503
Medical and Surgical:		
Salaries and wages	1,577,388	1,681,199
Employee benefits	619,720	632,692
Supplies and other expense	<u>81,117</u>	<u>120,780</u>
	2,278,225	2,434,671
Coronary Care:		
Salaries and wages	1,012,347	990,042
Employee benefits	377,075	344,504
Supplies and other expense	<u>35,565</u>	<u>43,446</u>
	1,424,987	1,377,992
Obstetric:		
Salaries and wages	24,159	25,845
Employee benefits	4,006	4,210
Supplies and other expense	<u>41,569</u>	<u>39,500</u>
	69,734	69,555

(continued next page)



MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Nursing Service Expenses - Continued  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Nursery:		
Salaries and wages	\$ 28,164	\$ 30,123
Employee benefits	4,670	4,909
Supplies and other expense	<u>22</u>	<u>2,750</u>
	32,856	37,782
Operating Room:		
Salaries and wages	452,069	416,269
Employee benefits	183,813	169,135
Supplies and other expense	<u>745,902</u>	<u>591,432</u>
	1,381,784	1,176,836
Labor and Delivery:		
Salaries and wages	13,297	14,421
Employee benefits	2,205	2,348
Supplies and other expense	<u>117</u>	<u>1,090</u>
	15,619	17,859
Central Services and Supply:		
Salaries and wages	188,702	176,418
Employee benefits	91,131	82,698
Supplies sold to patients	76,187	133,894
Supplies and other expense	<u>8,471</u>	<u>9,706</u>
	364,491	402,716
Intravenous Therapy:		
Solutions	40,220	26,940
Emergency Services:		
Salaries and wages	569,080	551,481
Employee benefits	124,396	116,633
Supplies and other expense	<u>52,777</u>	<u>47,215</u>
	746,253	715,329
Outpatient Clinics:		
Salaries and wages	375,655	298,393
Employee benefits	136,641	120,389
Supplies and other expense	<u>53,935</u>	<u>43,090</u>
	566,231	461,872
	<u>\$ 7,389,227</u>	<u>\$ 7,208,712</u>

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Nursing Service Expenses - Continued  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
<u>SUMMARY</u>		
Salaries and wages	\$ 4,546,041	\$ 4,485,218
Employee benefits	1,652,382	1,579,795
Other expense	<u>1,190,804</u>	<u>1,143,699</u>
	<u>\$ 7,389,227</u>	<u>\$ 7,208,712</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Other Professional Service Expenses  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Emergency Room Physicians:		
Professional fees	\$ 1,031,818	\$ 1,039,716
Laboratory:		
Salaries and wages	519,492	544,691
Employee benefits	141,039	163,917
Purchased services	191,393	201,771
Supplies and other expense	<u>468,670</u>	<u>469,050</u>
	1,320,594	1,379,429
Blood Bank:		
Cost of blood	169,527	139,410
Electrocardiology:		
Salaries and wages	17,666	16,155
Employee benefits	2,896	2,621
Purchased services	<u>43,284</u>	<u>98,226</u>
	63,846	117,002
Electroencephalography:		
Salaries and wages	1,066	570
Employee benefits	<u>175</u>	<u>93</u>
	1,241	663
Radiology:		
Salaries and wages	502,063	492,770
Employee benefits	176,774	168,085
Supplies and other expense	<u>426,148</u>	<u>388,033</u>
	1,104,985	1,048,888
Ultrasound:		
Salaries and wages	101,586	97,137
Employee benefits	17,548	16,077
Supplies and other expense	<u>66,824</u>	<u>48,846</u>
	185,958	162,060

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Other Professional Service Expenses - Continued  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
CT Scan:		
Supplies and other expense	\$ 165,024	\$ 113,461
Mammography:		
Purchased services	72,289	69,098
Supplies and other expense	<u>25,733</u>	<u>32,969</u>
	98,022	102,067
MRI:		
Purchased services	129,665	132,500
Supplies and other expense	<u>5,791</u>	<u>9,089</u>
	135,456	141,589
Nuclear Medicine:		
Purchased services	60,893	54,335
Supplies and other expense	<u>1,110</u>	<u>2,229</u>
	62,003	56,564
Pharmacy:		
Salaries and wages	329,195	326,100
Employee benefits	82,028	71,896
Purchased services	88,068	96,388
Drugs	538,766	523,191
Supplies and other expense	<u>15,570</u>	<u>12,525</u>
	1,053,627	1,030,100
Anesthesiology:		
Salaries and wages	411,682	395,746
Employee benefits	88,860	77,829
Professional fees	240	240
Supplies and other expense	<u>68,550</u>	<u>33,858</u>
	569,332	507,673
Inhalation Therapy:		
Salaries and wages	324,523	342,918
Employee benefits	100,206	110,696
Professional fees	494	48,453
Supplies and other expense	<u>45,300</u>	<u>53,835</u>
	470,523	555,902

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Other Professional Service Expenses - Continued  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Physical Therapy:		
Professional fees	\$ 528,073	\$ 482,495
Supplies and other expense	<u>21,131</u>	<u>18,005</u>
	549,204	500,500
Speech Therapy:		
Professional fees	35,535	33,270
Supplies and other expense	<u>685</u>	<u>--</u>
	36,220	33,270
Occupational Therapy:		
Professional fees	125,155	91,937
Cardiopulmonary Rehabilitation:		
Salaries and wages	77,376	100,761
Employee benefits	29,154	29,765
Supplies and other expense	<u>7,200</u>	<u>5,352</u>
	113,730	135,878
Oncology:		
Salaries and wages	187,843	170,696
Employee benefits	44,863	40,802
Supplies and other expense	<u>620,915</u>	<u>476,077</u>
	853,621	687,575
Sleep Study:		
Salaries and wages	60,406	56,621
Employee benefits	17,311	9,713
Professional fees	180	--
Supplies and other expense	<u>12,569</u>	<u>9,503</u>
	90,466	75,837
Home Health:		
Salaries and wages	259,053	229,716
Employee benefits	118,310	96,241
Professional fees	79,208	35,527
Purchased services	18,821	18,910
Supplies and other expense	<u>25,031</u>	<u>26,409</u>
	500,423	406,803

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Other Professional Service Expenses - Continued  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Hospice:		
Salaries and wages	\$ 124,452	\$ 114,356
Employee benefits	25,569	23,619
Purchased services	66,389	62,042
Supplies and other expense	<u>59,009</u>	<u>50,025</u>
	275,419	250,042
Business Health:		
Salaries and wages	41,543	37,657
Employee benefits	11,917	11,278
Supplies and other expense	<u>23,150</u>	<u>16,634</u>
	76,610	65,569
Women's Health Clinic:		
Salaries and wages	364,039	345,879
Employee benefits	94,167	96,949
Supplies and other expense	<u>35,107</u>	<u>33,150</u>
	493,313	475,978
Villisca Medical Clinic:		
Salaries and wages	171,498	169,797
Employee benefits	61,857	60,049
Supplies and other expense	<u>73,080</u>	<u>64,921</u>
	306,435	294,767
Surgical Services:		
Salaries and wages	404,218	396,385
Employee benefits	59,974	57,671
Supplies and other expense	<u>41,633</u>	<u>36,346</u>
	505,825	490,402
Internal Medicine Clinic:		
Salaries and wages	983,261	943,271
Employee benefits	283,263	258,048
Purchased services	27,041	37,871
Supplies and other expense	<u>109,154</u>	<u>79,254</u>
	1,402,719	1,318,444
Social Services:		
Salaries and wages	112,883	108,043
Employee benefits	30,552	29,305
Supplies and other expense	<u>2,478</u>	<u>1,679</u>
	145,913	139,027

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Other Professional Service Expenses - Continued  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Lifeline:		
Supplies and other expense	\$ 52,142	\$ 59,211
Health Information Management:		
Salaries and wages	327,311	322,441
Employee benefits	111,837	107,898
Supplies and other expense	<u>68,405</u>	<u>54,313</u>
	507,553	484,652
Case Management:		
Salaries and wages	10,164	1,735
Employee benefits	302	3,814
Supplies and other expense	<u>5,469</u>	<u>3,333</u>
	15,935	8,882
Diabetes Program:		
Salaries and wages	76,029	76,536
Employee benefits	26,581	25,888
Supplies and other expense	<u>2,359</u>	<u>2,997</u>
	104,969	105,421
Wound/Ostomy Care:		
Purchased services	49,921	15,714
Supplies and other expense	<u>4,409</u>	<u>1,244</u>
	54,330	16,958
	<u>\$ 12,641,938</u>	<u>\$ 12,035,677</u>

SUMMARY

Salaries and wages	\$ 5,407,349	\$ 5,289,981
Employee benefits	1,525,183	1,462,254
Professional fees	1,800,703	1,731,638
Other expense	<u>3,908,703</u>	<u>3,551,804</u>
	<u>\$ 12,641,938</u>	<u>\$ 12,035,677</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
General Service Expenses  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Dietary:		
Salaries and wages	\$ 507,263	\$ 463,707
Employee benefits	207,269	188,395
Food	228,233	222,183
Supplies and other expense	<u>65,582</u>	<u>55,992</u>
	1,008,347	930,277
Housekeeping:		
Salaries and wages	442,447	432,231
Employee benefits	212,382	205,096
Purchased services	20,521	20,818
Supplies and other expense	<u>104,923</u>	<u>101,859</u>
	780,273	760,004
Laundry and Linen:		
Purchased services	105,652	100,099
Supplies and other expense	<u>2,354</u>	<u>2,667</u>
	108,006	102,766
Plant Engineering:		
Salaries and wages	219,024	206,967
Employee benefits	61,263	54,500
Utilities	471,816	413,394
Purchased services	44,427	39,132
Supplies and other expense	<u>278,000</u>	<u>201,251</u>
	<u>1,074,530</u>	<u>915,244</u>
	<u>\$ 2,971,156</u>	<u>\$ 2,708,291</u>

SUMMARY

Salaries and wages	\$ 1,168,734	\$ 1,102,905
Employee benefits	480,914	447,991
Other expense	<u>1,321,508</u>	<u>1,157,395</u>
	<u>\$ 2,971,156</u>	<u>\$ 2,708,291</u>

See Independent Auditor's Report.



MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Fiscal and Administrative Service Expenses  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Administrative:		
Salaries and wages	\$ 281,083	\$ 270,789
Employee benefits	239,135	243,654
Professional fees	75,683	43,619
Dues and subscriptions	52,743	93,720
Purchased services	77,316	29,564
Collection fees	57,043	54,818
Telephone	30,100	29,619
Supplies and other expense	<u>153,062</u>	<u>101,280</u>
	966,165	867,063
Accounting:		
Salaries and wages	223,539	216,756
Employee benefits	69,944	64,534
Supplies and other expense	<u>7,785</u>	<u>21,725</u>
	301,268	303,015
Admissions/Business Office:		
Salaries and wages	228,297	222,627
Employee benefits	88,299	79,613
Supplies and other expense	<u>24,196</u>	<u>27,283</u>
	340,792	329,523
Patient Accounting:		
Salaries and wages	303,531	284,643
Employee benefits	115,885	100,206
Supplies and other expense	<u>53,034</u>	<u>48,332</u>
	472,450	433,181
Fiscal Services:		
Salaries and wages	146,488	135,077
Employee benefits	71,354	62,048
Purchased services	17,512	2,224
Supplies and other expense	<u>6,688</u>	<u>5,183</u>
	242,042	204,532
Information Systems:		
Salaries and wages	724,386	739,303
Employee benefits	222,598	197,928
Purchased services and maintenance	493,866	455,514
Supplies and other expense	<u>85,801</u>	<u>63,485</u>
	1,526,651	1,456,230

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Fiscal and Administrative Service Expenses - Continued  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Human Resources:		
Salaries and wages	\$ 90,311	\$ 87,287
Employee benefits	46,992	46,649
Purchased services	3,537	3,916
Supplies and other expense	<u>29,223</u>	<u>44,531</u>
	170,063	182,383
Public Relations:		
Salaries and wages	84,481	80,212
Employee benefits	18,112	22,050
Supplies and other expense	<u>152,969</u>	<u>120,549</u>
	255,562	222,811
DRG/Utilization Review:		
Salaries and wages	107,877	106,340
Employee benefits	31,563	28,279
Supplies and other expense	<u>1,264</u>	<u>473</u>
	140,704	135,092
Insurance:		
Liability and property insurance	<u>113,618</u>	<u>140,590</u>
	<u>\$ 4,529,315</u>	<u>\$ 4,274,420</u>

SUMMARY

Salaries and wages	\$ 2,189,993	\$ 2,143,034
Employee benefits	903,882	844,961
Professional fees	75,683	43,619
Other expense	<u>1,359,757</u>	<u>1,242,806</u>
	<u>\$ 4,529,315</u>	<u>\$ 4,274,420</u>

SUMMARY OF EXPENSES

Salaries and wages	\$ 13,312,117	\$ 13,021,138
Employee benefits	4,562,361	4,335,001
Professional fees	1,876,386	1,775,257
Other expense	<u>7,780,772</u>	<u>7,095,704</u>
	<u>\$ 27,531,636</u>	<u>\$ 26,227,100</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Comparative Statistics  
Year ended June 30,

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Admissions	717	767	798	825	906
Discharges	722	759	797	825	915
Average Length of Stay	3.51	3.77	3.70	3.54	3.70
Acute Patient Days	2,533	2,861	2,947	2,919	3,387
Average Occupied Beds	6.9	7.8	8.1	8.0	9.3
Swing Bed Days	2,288	2,141	2,755	2,716	2,750
Combined Average Occupied Beds	13.2	13.7	15.6	15.4	16.8
Beds Available	25	25	25	25	25
Nursery Days	116	123	150	126	158
Outpatient Occasions of Service	38,707	37,890	39,031	40,682	40,328

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Comparative Statements of Net Position  
June 30,

	<u>2014</u>	<u>2013</u>
Current Assets:		
Cash	\$ 1,121,704	\$ 677,678
Receivables, net	4,557,111	4,885,015
Inventory	530,715	380,900
Prepaid expense	343,783	299,933
Estimated third-party payor settlements	855,000	953,000
Succeeding year property tax receivable	1,599,000	1,525,000
Internally designated assets	<u>83,988</u>	<u>88,201</u>
Total current assets	9,091,301	8,809,727
Other Assets:		
Internally designated and restricted assets	8,764,329	7,248,921
Capital assets, net	18,962,253	19,985,689
Other non-current assets	<u>657,338</u>	<u>540,107</u>
Total other assets	<u>28,383,920</u>	<u>27,774,717</u>
	<u>\$ 37,475,221</u>	<u>\$ 36,584,444</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 484,164	\$ 462,404
Accounts payable	956,318	756,426
Estimated third-party payor settlements	--	--
Accrued expenses	<u>1,712,749</u>	<u>1,697,225</u>
Total current liabilities	3,153,231	2,916,055
Long-Term Debt, Net	6,686,386	7,170,476
Deferred Inflows of Resources	2,368,000	1,525,000
Net Position	<u>25,267,604</u>	<u>24,972,913</u>
	<u>\$ 37,475,221</u>	<u>\$ 36,584,444</u>

See Independent Auditor's Report.

<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 1,657,621	\$ 1,890,890	\$ 584,377
4,706,719	3,597,681	4,670,816
396,487	413,594	397,955
168,973	430,890	419,605
--	938,000	554,000
1,469,000	1,395,000	1,364,000
92,406	91,989	847,260
<u>8,491,206</u>	<u>8,758,044</u>	<u>8,838,013</u>
6,403,545	5,484,053	3,638,107
21,455,529	21,924,713	20,655,089
518,817	482,575	468,312
<u>28,377,891</u>	<u>27,891,341</u>	<u>24,761,508</u>
<u>\$ 36,869,097</u>	<u>\$ 36,649,385</u>	<u>\$ 33,599,521</u>
\$ 434,609	\$ 430,524	\$ 727,444
1,167,688	1,670,469	1,508,912
207,000	--	--
<u>1,568,097</u>	<u>1,416,584</u>	<u>1,325,410</u>
<u>3,377,394</u>	<u>3,517,577</u>	<u>3,561,766</u>
7,632,880	8,174,106	4,589,123
1,469,000	1,395,000	1,364,000
<u>24,389,823</u>	<u>23,562,702</u>	<u>24,084,632</u>
<u>\$ 36,869,097</u>	<u>\$ 36,649,385</u>	<u>\$ 33,599,521</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Comparative Statements of Revenues and Expenses  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Patient Service Revenue	\$ 44,745,503	\$ 43,209,451
Adjustments to Patient Service Revenue	<u>( 16,896,376)</u>	<u>( 16,079,693)</u>
Net Patient Service Revenue	27,849,127	27,129,758
Other Revenue	<u>408,587</u>	<u>392,062</u>
Total Revenue	28,257,714	27,521,820
Expenses	<u>29,599,515</u>	<u>28,375,746</u>
Operating Loss	( 1,341,801)	( 853,926)
Non-Operating Revenue, Net	<u>1,514,172</u>	<u>1,406,016</u>
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Capital Grants and Contributions	172,371	552,090
Capital Grants and Contributions	<u>122,320</u>	<u>31,000</u>
Increase (Decrease) in Net Position	<u>\$ 294,691</u>	<u>\$ 583,090</u>

See Independent Auditor's Report.

<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 42,392,117	\$ 40,741,153	\$ 37,807,125
<u>( 15,890,946)</u>	<u>( 15,346,995)</u>	<u>( 13,158,375)</u>
26,501,171	25,394,158	24,648,750
<u>389,145</u>	<u>335,312</u>	<u>388,907</u>
26,890,316	25,729,470	25,037,657
<u>27,493,396</u>	<u>27,552,077</u>	<u>25,645,860</u>
( 603,080)	( 1,822,607)	( 608,203)
<u>1,337,085</u>	<u>1,255,677</u>	<u>1,290,790</u>
734,005	( 566,930)	682,587
<u>93,116</u>	<u>45,000</u>	<u>64,395</u>
<u>\$ 827,121</u>	<u>\$ ( 521,930)</u>	<u>\$ 746,982</u>

## COMMENTS AND RECOMMENDATIONS



# Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Trustees  
Montgomery County Memorial Hospital  
Red Oak, Iowa

We have audited the financial statements of Montgomery County Memorial Hospital as of and for the year ended June 30, 2014, and have issued our report thereon dated December 15, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

## **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Montgomery County Memorial Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Montgomery County Memorial Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Trustees  
Montgomery County Memorial Hospital

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 14-I-A to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Montgomery County Memorial Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

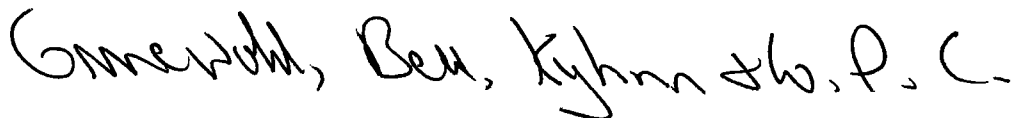
Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### **Response to Findings**

Montgomery County Memorial Hospital's response to the findings identified in our audit is described in the accompanying Schedule of Findings. While we have expressed our conclusion on the Hospital's response, we did not audit the Hospital's response and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Hospital's internal control over compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Atlantic, Iowa  
December 15, 2014

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Schedule of Findings  
Year ended June 30, 2014

PART I - FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Significant Deficiencies:

14-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital. This is a common deficiency among most small rural Hospitals.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

\* \* \*

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Schedule of Findings  
Year ended June 30, 2014

PART II - OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

14-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2014 did not exceed amounts budgeted.

14-II-B Questionable Expenditures: During the audit, we noted no expenditures for parties, banquets or other entertainment for employees or Board members.

14-II-C Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

14-II-D Business Transactions: During our audit, we noted no business transactions between the Hospital and Hospital officials.

14-II-E Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

14-II-F Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

\* \* \*